

REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON THABAZIMBI LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Thabazimbi Local Municipality, which comprise the statement of financial position as at 30 June 2011, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Thabazimbi Local Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with the SA standards of GRAP and the requirements of the MFMA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during 2011 in the financial statements of the Thabazimbi Local Municipality at, and for the year ended, 30 June 2010.

Unauthorised expenditure

9. As disclosed in note 43 to the financial statements, the municipality incurred unauthorised expenditure of R9,2 million as a result of incurring expenditure in excess of the limit of an amount approved for in a vote and utilising conditional grant money for purposes other than that for which it was intended.

Irregular expenditure

10. As disclosed in note 45 to the financial statements, the municipality incurred irregular expenditure of R21,6 million as a result of non-compliance with the supply chain management (SCM) regulations.

Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

11. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Presentation of information

13. The reported performance against predetermined objectives was deficient in respect of the following criteria:

- Performance against predetermined objectives was not reported using the National Treasury guidelines.

14. The following audit findings relate to the above criteria:
 - The integrated development plan did not include the key performance indicators and performance targets determined in accordance to its performance management system, as required by sections 26(i) and 41(1) (b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001. The municipality did include the indicators and targets in the service delivery and budget implementation plan.
 - Measures for variances between the planned and the actual reported targets for the objectives were not provided, as required in terms of the relevant reporting guidance.

Usefulness of information

15. The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are not consistent with the approved service delivery and budget implementation plan.
- Measurability: The targets are not time bound.

16. The following audit findings relate to the above criteria:

- For the selected objectives, 38% of the planned targets were not time-bound in specifying the time period or deadline for delivery.
- Additional objectives, indicators and targets were reported on as opposed to the approved service delivery and budget implementation plan. These additional objectives, indicators

and targets were not included in the approved service delivery and budget implementation plan.

- Reported performance against predetermined objectives, indicators and targets is not consistent with the approved service delivery and budget implementation plan.

Compliance with laws and regulations

Strategic planning and performance management

17. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the Municipal Systems Act and Municipal Planning and Performance Management Regulations 7 and 8.

Budgets

18. The municipality incurred expenditure in excess of the limits of an amount provided for in a vote in the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual reports

19. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of property, plant and equipment, employee cost, revenue, expenditure, payables, provisions, accumulated surplus and disclosure items identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

Audit committees

20. The audit committee did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information as required by section 166(2)(a)(iv) of the MFMA.
21. The audit committee did not advise the municipal council of the municipality on matters relating to compliance with the MFMA, the Division of Revenue Act and other applicable legislation as required by section 166(2)(a) of the MFMA.

Procurement and contract management

22. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a).
23. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
24. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
25. Awards were made to providers who are persons in service of other state institutions or whose directors/ principal shareholders are persons in service of other state institutions in contravention of the requirements of SCM regulations 44. Furthermore the provider failed to declare that they are in the service of the state as required by SCM regulation 13(c).
26. Awards were made to providers who are persons in service of the municipality and/or whose directors/ principal shareholders are persons in service of the municipality in contravention of SCM regulations 44. Furthermore the providers failed to declare that he/she was in the service of the municipality as required by SCM regulation 13(c).

Expenditure management

27. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

28. The accounting officer did not take reasonable steps to prevent unauthorised expenditure and irregular expenditure, as required by section 62(1)(d) of the MFMA.

INTERNAL CONTROL

29. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

- **Leadership**

The accounting officer and management did not exercise oversight responsibility over performance reporting and the enforcement of SCM regulations.

- **Financial and performance management**

The financial statements have not adequately been reviewed for completeness and accuracy by the chief financial officer; the material amendments to the financial statements by the consultant is evident thereof.

Management did not ensure the adequate presentation and usefulness on reporting on predetermined objectives.

Adequate controls are lacking over applying the principles of procuring goods and services within the SCM Regulations.

Inadequate controls exist over reviewing the allocation of expenditure transactions before processing the transactions.

- **Governance**

Management did not respond to the findings of internal audit on performance measurement and procuring goods and services.

The audit committee did not in all instances fulfil its responsibilities, as outlined in the MFMA.

OTHER REPORTS

Investigation

Investigation in progress

30. An investigation is being conducted into various charges based on the allegation of possible tender irregularities in the municipality. The investigation was still ongoing at the reporting date.

auditor - general.

Polokwane

30 November 2011



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence